

Message Text

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ORIGIN NEA-10

INFO OCT-01 ISO-00 EB-08 XMB-02 TRSE-00 AID-05 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 USIA-06 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 /053 R

DRAFTED BY NEA/PAB:JPMULLIGAN/MW
APPROVED BY NEA/PAB:JACOON
EB/JFB/OMD:BCROWE (DRAFT)
EXIM:RSWART/PDUNTON (DRAFT)
TREASURY/OASIA:THOOPENGARDNER
NEA:PWLANDE

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P 262301Z AUG 77
FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD PRIORITY

C O N F I D E N T I A L STATE 205007

E.O. 11652: GDS

TAGS: BGEN, PK

SUBJECT: REQUEST FOR EXIMBANK FINANCING OF ONE 747 (SR)
AIRCRAFT FOR PIA

REF: (A) ISLAMABAD 5299; (B) STATE 100919

1. EXIM STAFF HAS ANALYZED FINANCIAL DATA AND CREDITWORTHINESS OF PIA BUT IS CONCERNED THAT IN VIEW GOP DEBT/FINANCIAL SITUATION, THE GOP MAY REQUEST ADDITIONAL DEBT RELIEF WHEN OR SHORTLY AFTER CURRENT FOUR-YEAR AGREEMENT (COVERING PERIOD 7/1/74 THROUGH 6/30/78) EXPIRES. THE SHARE OF DEBT RELIEF CHARGED TO EACH CREDITOR IN MULTILATERAL DEBT RESCHEDULINGS TRADITIONALLY IS BASED UPON DEBT SERVICE FALLING DUE FROM ALL LOANS EXTENDED OR GUARANTEED BY CREDITOR GOVERNMENTS. (FYI: IN 1974 IBRD
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SPONSORED RESCHEDULING, AID RESCHEDULED A GREATER PORTION OF DEBT THAN WAS CALLED FOR IN ORDER TO EXEMPT NEED FOR EXIMBANK RESCHEDULING. NO ADVANCE COMMITMENT ON THIS FLEXIBILITY WITHIN USG SHARE OF POTENTIAL DEBT RELIEF IS POSSIBLE. END FYI.) SINCE THERE CAN BE NO GUARANTEE THAT EXIM LOANS WOULD BE EXEMPTED IN ANY RESCHEDULING WHICH MAY AFFECT PROPOSED PIA CREDIT, THERE IS STRONG POSSIBILITY

THAT EXIM BOARD MAY REJECT LOAN APPLICATION UNLESS SOME MEANS CAN BE FOUND TO INSULATE SUCH LOAN FROM POSSIBLE RESCHEDULING. IN THIS CONNECTION, EXIM, WHICH RECEIVES NO APPROPRIATED FUNDS, IS UNDER PRESSURE TO INCREASE ITS RESERVES WITH REVENUES GENERATED BY ITS LENDING.

2. SUBSTANCE OF EXIM CONCERN WAS DISCUSSED WITH EMBASSY'S ECONOMIC MINISTER SHAH DURING LATTER'S COURTESY CALL AT THE BANK ON AUGUST 22. SUGGESTION WAS MADE TO SHAH HOWEVER THAT GOP OBTAIN ANOTHER GUARANTOR. EXIM OFFICIALS ALSO EMPHASIZED TO SHAH THAT BOARD DECISION WOULD BE MADE ON BASIS OF COMMERCIAL CONSIDERATIONS AS DETERMINED BY THE BANK'S LENDING CRITERIA APPLICABLE TO ALL COUNTRIES. EXIM NOTED THAT CURRENT POLITICAL SITUATION IN PAKISTAN WOULD NOT PRECLUDE LOAN, AND PIA CREDITWORTHINESS NOT AT ISSUE.

3. FYI: IN LOOKING AT LDC DEBT PROSPECTS OVER NEXT 12 MONTHS, DEPARTMENT ANALYSTS FEEL PAKISTAN IS AMONG HANDFUL OF COUNTRIES MOST VULNERABLE TO SERVICING DIFFICULTIES. END FYI.

4. DEPARTMENT WOULD APPRECIATE ANY NEW INFORMATION OR COMMENT EMBASSY CAN PROVIDE WITH RESPECT TO PAKISTAN'S ANTICIPATED FUTURE NEED FOR DEBT RELIEF IN CONTEXT OF REF-TEL (B), OR WHICH SUPPLEMENTS BREAKDOWN ON DEBT SERVICE ATTACHED WITH SCHAFFER TO MULLIGAN LETTER OF JULY 14, 1977. CONFIDENTIAL

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5. EXIM BANK PLANS SCHEDULE THIS LOAN FOR CONSIDERATION BY ITS BOARD OF DIRECTORS ON SEPTEMBER 1. CONSIDERATION CANNOT BE POSTPONED FOR LONG BECAUSE BOEING MUST MAKE PRODUCTION LINE COMMITMENTS NECESSARY TO PRODUCE SHORT RANGE VERSION OF 747 FOR WHICH WORLD DEMAND IS STRICTLY LIMITED. WE ARE ACUTELY AWARE OF PAKISTANI POLITICAL SENSITIVITIES AT THIS TIME, AND SEE SOME VALUE IN HAVING DECISION MADE ON SCHEDULE WITH PROMPT NOTIFICATION TO PARTIES CONCERNED, EVEN IF NEGATIVE, SINCE GOP IS ALREADY AWARE OF PROBLEM AND ANY FURTHER DELAY IS LIKELY TO REINFORCE VIEW OF SOME THAT POLITICAL RATHER THAN COMMERCIAL CONSIDERATIONS ARE DETERMINING FACTOR IN MAKING LOAN DECISION. WILL APPRECIATE EMBASSY VIEWS ON MATTER OF TIMING.

6. WE ARE LOOKING INTO THE QUESTION OF WHETHER A GUARANTEE BY AN OPEC COUNTRY OR A U.S. COMMERCIAL BANK WOULD MEET THE PROBLEM.

7. ALL AGENCIES CONCERNED HERE ARE AWARE THAT LOAN REFUSAL MAY BE INTERPRETED BY GOP AS EVIDENCE OF FURTHER POLITICAL

PRESSURE BY USG AT PARTICULARLY SENSITIVE TIME, REGARDLESS
OF FACTS AND IRRESPECTIVE OF THE BANK'S RELATIVE FREEDOM TO
ACT AUTONOMOUSLY IN SUCH MATTERS.

CHRISTOPHER

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